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SUBJECT: UZBEKISTAN: COST OF LIVING SOARS,
POVERTY REMAINS HIGH

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1. (SBU) SUMMARY. Official GOU figures continue to show robust macroeconomic growth, but the benefits of this growth are slow to be seen in the economic lives of Uzbek citizens. Although gross national income per capita is growing, the official consumer price index of 6.5 percent stands in sharp contrast to estimates by the World Bank (WB) and by Post that show the cost of living rising by 12 or even 20 percent or more per year. Ranking among the five most corrupt countries in the world according to Transparency International, Uzbekistan has a shadow economy that accounts for 20 percent of GDP by official estimates and by up to 45-50 percent of GDP in independent assessments. According to the WB, over a quarter of the population lives below the poverty line, but to date the GOU has not announced any effective anti-poverty measures. The GOU has yet to recognize that poverty reduction can be the spark that will ignite Uzbekistan's economic growth engine. END SUMMARY

INCOMES and EXPENSES

12. (SBU) In April the State Statistics Committee of Uzbekistan issued a report on household incomes and expenses in the first quarter of 12008. The report says that nominal household incomes amounted to USD 3.46 billion (30.9 percent increase compared with the first quarter of 2007), while monetary expenses and savings rose 26.4 percent to USD 3.38 billion. These numbers correspond to income and expenses of USD 1.4 and USD 1.37, respectively, per person per day. (COMMENT: By comparison, according to the Rosstat Agency the average income in Russia in June 2008 was approximately USD 21 per person per day [Ref A]. END COMMENT.)

13. (SBU) According to the statistics committee report, incomes were structured as follows: USD 1.2 billion in wages paid by employers (42.3 percent rise); USD 1.6 billion generated from business activities, including property rentals and the sale of agricultural products (21 percent increase); and USD 660 million in social benefits.

14. (SBU) The report also shows that the annual gross national income (GNI) per capita is growing gradually and amounted to about USD 650 in 2007. This reflects improvement after a

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sharp decline in 1991-1996 (from USD 1,100 down to USD 350) but remains low compared with other leading CIS economies.

POVERTY and UNEMPLOYMENT

15. (SBU) According to WB figures about 25.8 percent of the Uzbek population lives below the poverty line and is able to spend less than USD 1.1 per day (Ref B). About 75 percent of the population falls below the international poverty line and is able to spend less than USD 2.15 per day.

16. (SBU) Despite the high poverty level, the unemployment rate is low: about 0.75 percent according to GOU official sources and about 8 percent according to the International Labor Organization. The WB explains the low unemployment by pointing to the low-productivity and low-income jobs held by the majority of the population, especially in rural areas. The official number of small businesses in the country is 429.7 thousand, whereas the officially employed population exceeds 10.6 million. (COMMENT: If the entire population were employed by small businesses, this corresponds to about 25 employees per business, a number that strikes us as too large. END COMMENT) About 58 percent of the employed population works in trade and services, 29 percent in agriculture, and 13 percent in industry.

COST of LIVING

17. (SBU) The Statistics Committee report says the consumer price index (CPI) rose no more than 6.5 percent during the first quarter of 2008. If true, this implies that most of the 26.4 percent growth in expenses came from growth in

consumption and savings, but it is equally or even more likely that the statistics committee has understated the level of inflation.

¶18. (SBU) Official economic data on Uzbekistan are unreliable and usually are not made available to outside observers. (COMMENT: Although the GOU does share its raw economic data with the International Monetary Fund (IMF), it does so under a non-disclosure agreement. END COMMENT) The GOU does not issue raw data on the cost of living or the cost of a basic basket of goods. According to data collected and analyzed by post, the cost of living has been growing 25-30 percent per year for the past five years and already has grown 26.5 percent in January-June 2008. In its 2006 Article IV Consultation for Uzbekistan, the IMF estimated the true rate of inflation to be 19.5 percent (Ref C). In its just-released report for 2008, the IMF estimates inflation to be running at a more moderate 12.3 percent (Refs D and E).

¶19. (SBU) Post's analysis shows that the average monthly cost of living for one household (excluding high cost goods, home appliances, mortgage payments, clothes, travel, and other optional goods and services) grew from USD 498 in January 2007 to USD 618 in January 2008 and to USD 769 in June 2008. Sharp price increases for rice, flour, bread, vegetable oil, and energy caused spontaneous protests in some towns last fall (Refs F and G).

¶10. (SBU) A shortage of water for irrigation

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this year already has led to reductions in various crops, mainly rice and grain. In addition, neighboring Kazakhstan, the largest supplier of grain and flour to Uzbekistan, has introduced export quotas. Due to the shortage of forage, private farmers are reducing their livestock holdings. All these factors may lead to a further rise in foodstuff prices this coming fall and winter.

¶11. (SBU) With great official fanfare the GOU increases minimum wages and pensions on average twice a year (most recently on July 23 [Ref H]) but there are those who believe this is a way to increase tax revenues, not an expression of government largess. Many taxes -- for example the unified tax for private entrepreneurs and small businesses as well as some import duties -- are based on minimum salary. By increasing the minimum salary, the GOU increases its tax revenue base. Moreover, the wage hikes encourage matching inflation.

SOCIAL IMPACT

¶12. (SBU) To survive in such a challenging environment, many low income families are forced to limit consumption of quality foods. With meat prices in Tashkent averaging about 3 USD/lbs -- roughly the same as in the U.S. -- some families are reported instead to be buying meat waste products normally used for pets. The growing demand for cheap goods has been accompanied by a corresponding decline in quality. Almost all food stuffs sold at the lower end of the price spectrum do not meet minimal quality standards set by the GOU.

¶13. (SBU) People looking for alternative sources of income continue to turn to illegal sectors of the economy. Our contacts in the WB office in Tashkent estimate the shadow economy in Uzbekistan accounts for 45-50 percent of GDP, and even Uzbek authorities acknowledge the shadow economy could account for up to 20 percent of GDP.

¶14. (SBU) Low incomes in the public sector and the large shadow economy encourage corruption. Transparency International's Corruption Perceptions Index for 2007 ranks Uzbekistan among the five most corrupt countries in the world along with Haiti, Somalia, Iraq, and Burma (Ref I).

¶15. (SBU) Many people -- in particular in rural areas -- are migrating within the country or abroad to Kazakhstan and Russia in search of work. There are no official statistics, but the WB office in Tashkent estimates the number of permanent or temporary labor migrants has reached 5 million. Remittances have grown sharply in the last five years. Official figures acknowledge almost USD 1.6 billion (9 percent of GDP) in remittances in 2007. The real volume of remittances could be two times higher. (COMMENT: It is rumored that the level of remittances may be dropping because some migrant laborers are now taking their families with them when they go abroad. END COMMENT)

GOU REACTION

¶16. (SBU) The GOU says the poverty level will decline from 25.8 percent to approximately 13 percent by 2015; Uzbekistan has also approved a

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bill to join the UN Anti-Corruption Convention and a bill to ratify the protocol to prevent human trafficking and implement punishment rules from the UN Anti Trans National Organized Crime Convention. Both bills were passed on June 27, 2008 (Refs J, K, and L). At the same time, however, to date no effective poverty-reduction incentives have been announced.

COMMENT

¶17. (SBU) The income and poverty picture in Uzbekistan has changed little since Post's last report in 2007 (Ref M). The GOU is continuing to use strict monetary policy instruments and import restrictions to "protect" the economy (Ref D and E).

¶18. (SBU) The existing level of poverty in Uzbekistan may create preconditions for further criminalization of the economy and society as well as undermine social stability. The GOU has yet to accept that real poverty reduction measures along with favorable external conditions will increase domestic market potential, stimulate further development of small businesses, and create a favorable economic environment for investors. Investments will create new jobs, which will serve to further poverty reduction. In other words, poverty reduction can be the spark that ignites Uzbekistan's economic growth engine.

¶19. (SBU) Post's 2003-2008 cost of living

analysis for Uzbekistan is available in
spreadsheet form upon request to
McCutcheonRA@state.gov.

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